

Healthcare Spending in Mississippi

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Introduction

This report examines healthcare trends in U.S. and Mississippi from 1990 to 2001. The healthcare sector includes hospitals, doctors and dentists offices, nursing and protective facilities, home health care, spending for medical durables and non-durables, and allied health services. Observations of the level of healthcare spending is useful for gauging trends for medical care, yet it also points to the importance of healthcare as an integral part of the whole economy. A substantial number of businesses rely on healthcare spending to stimulate demand for supporting industries. Spending in the health care sector stimulates economic growth in other parts of the economy, including retail and wholesale trade, finance and insurance, business social services, and transportation.

The National Perspective

Nationwide, personal healthcare spending more than doubled from \$609 billion in 1990 to more than \$1.2 trillion in 2001 (Figure 1). Personal healthcare spending in the U.S as a fraction of the total economy was 14.1% in 2001, a sharp increase from the previous year. This has been attributed mostly to overall slower economic growth resulting from the recession that began in March 2001 (Levit *et al.*, 2003).

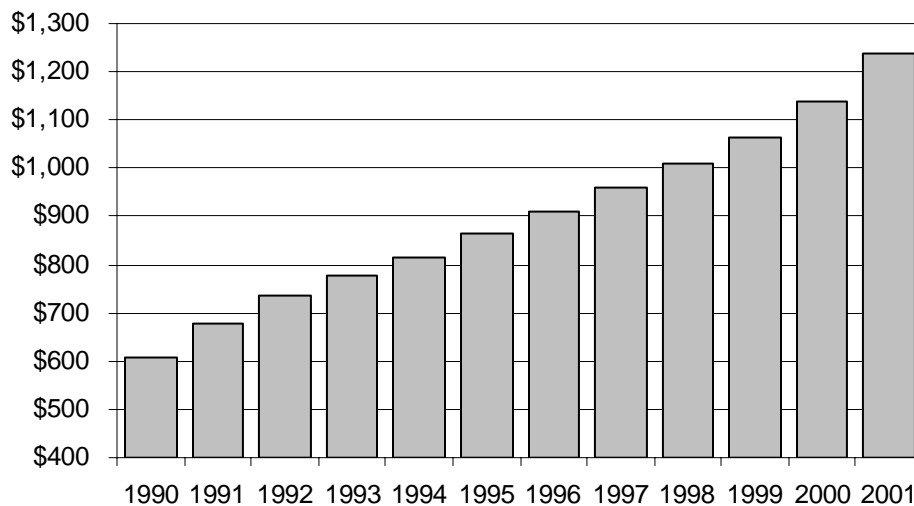


Figure 1. Personal Healthcare Spending in the U.S.

This result is more clearly understood by examining the health share of gross state product. In 2001, the U.S. health sector accounted for 5.8% of national gross state product, a 5% increase over the previous year (Figure 2).

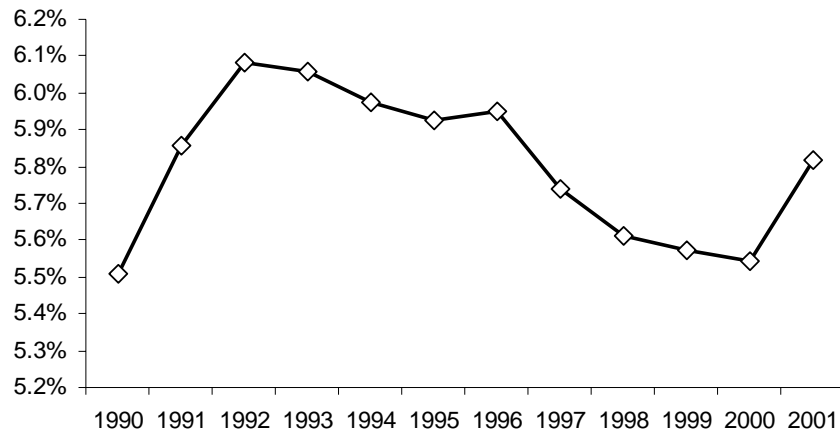


Figure 2. Health Services as a Percentage of U.S. Gross State Product

From 1990 through 2001, the national economy grew at an average rate of 7.8% per year in real terms. During the same period the healthcare sector more than doubled in size, outpacing national growth with an average real annual rate of 8.3%.

Healthcare Spending in Mississippi

Health spending in Mississippi followed a trend similar to that of the nation for the same period (Table 1). Gross state product in Mississippi grew from \$39.2 billion in 1990 to \$67.1 billion in 2001, a 7.6% average real increase per year. However, Mississippi’s health sector grew at a faster rate: from \$1.9 billion in 1990 to \$4.1 billion in 2001 – a 9.9% average real increase per year.

Table 1. Total Gross State Product and Its Health Component (\$ millions, current).

Year	USA		Mississippi	
	Total	Health	Total	Health
1990	5,706,658	314,363	39,175	1,829
1991	5,895,430	345,311	41,311	2,051
1992	6,209,096	377,805	44,222	2,304
1993	6,513,026	394,541	47,384	2,412
1994	6,930,791	413,949	51,358	2,685
1995	7,309,516	433,091	54,562	2,942
1996	7,715,901	459,084	56,575	3,267
1997	8,224,960	472,160	58,743	3,483
1998	8,750,174	491,056	61,709	3,557
1999	9,251,541	515,399	64,219	3,623
2000	9,891,187	548,451	66,162	3,824
2001	10,137,190	589,788	67,125	4,072
Average Annual				
Real Growth ^a	7.6%	8.2%	7.3%	9.9%

^aCurrent annual growth adjusted for inflation using the US GDP implicit price deflator.

Source: Bureau of Economic Analysis, Woods & Poole

From 1990 to 2001 Mississippi health shares of gross state product trended upward, indicating that the health sector became relatively more important over time. Since 1997 health shares in Mississippi have exceeded the national rate (Figure 3); in 2001, it was more than 6% of the economy's gross state product.

Personal healthcare expenditures include spending for hospital care, professional services (including dental), drugs and other non-durables, vision products and other medical durables, nursing home care, and home healthcare. In Mississippi, hospital and professional services together accounted for 74% of health sector spending (Figure 4). Non-durables, such as expenditures for prescription and non-prescription drugs, were 12% of average annual personal healthcare spending from 1990 through 1998.

The fastest-growing U.S. health expenditure category was prescription drugs, a key driver of overall spending trends in 2001. In the past decade increasing third party coverage and continued new drug introductions have spawned steady growth (Levit *et al.*, 2003).

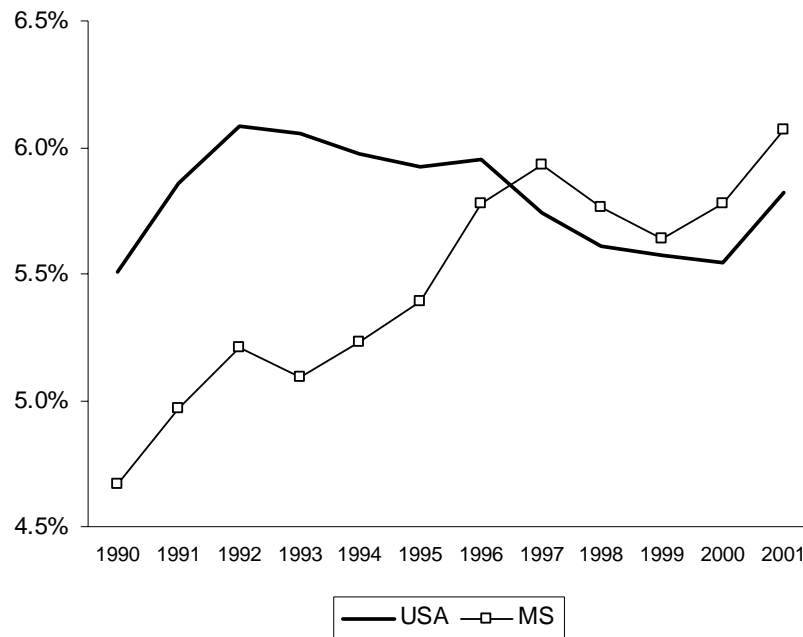


Figure 3. Health Services as a Percentage of Gross State Product, USA and Mississippi.

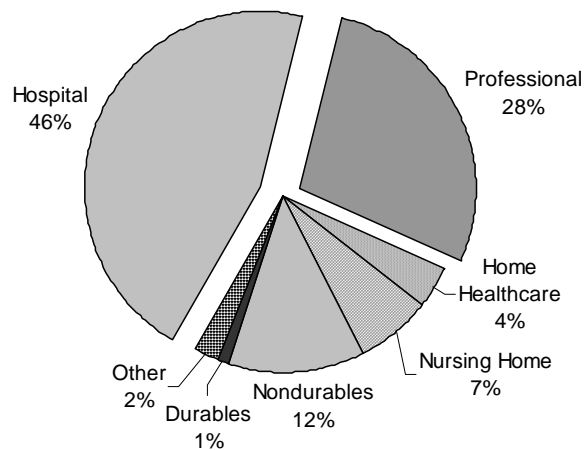


Figure 4. Personal Healthcare Expenditures by Establishment Type in Mississippi, 1990-1998 average.

In Mississippi, expenditures for non-durable health products grew from \$598 million in 1990 to an estimated \$1.3 billion in 2001. Real growth averaged 12.4% annually over the period (Table 2). However, it was the home healthcare sector that had the highest rate of growth for real expenditures: 16% average annual growth. It is worth noting that growth in the home healthcare sector was nearly flat in 1997, but reversed itself in 1998, falling by more than 19%.

Table 2. Personal Healthcare Spending, Mississippi, 1990-2001, \$ million.

Year	Hospital	Professional	Home Healthcare	Nursing Home	Non-Durables	Durables	Other
1990	2,187	1,345	143	310	598	56	91
1991	2,400	1,480	168	362	656	62	104
1992	2,654	1,543	192	418	715	70	113
1993	2,851	1,756	244	456	760	73	129
1994	3,082	1,845	297	490	809	77	144
1995	3,468	2,015	325	521	874	81	163
1996	3,671	2,131	384	578	963	86	184
1997	3,654	2,394	374	639	1,081	91	197
1998	4,000	2,529	293	687	1,222	93	210
1999 ^e	4,153	2,525	352	656	1,134	1,03	1,95
2000 ^e	4,383	2,665	372	692	1,197	1,09	2,06
2001 ^e	4,668	2,838	396	737	1,275	1,16	2,19
Average Annual							
Real Growth ^a	12.4%	12.3%	16.0%	13.6%	12.4%	12.1%	13.8%

a – Current annual growth adjusted for inflation using the medical sector CPI.

e – estimates based on actual GSP in 1999-2001 and average GSP fractions of expenditures from 1990-1998.

Source: Centers for Medicare and Medicaid Services, Bureau of Economic Analysis.

This has been attributed to the implementation of the Balanced Budget Act of 1997 and the Medicare Interim Payment System, which reduced the existing Medicare per visit cost limits (Martin et al., 2001). Average real expenditures for the two largest health sectors, hospital services and professional services, grew at an average annual rate of 12.4% and 12.3%, respectively.

Funding

Total spending for healthcare is funded from both private and public sources. Private sources include out-of-pocket spending and private health insurance. Public spending is either federal, such as Medicare, or state-based, such as Medicaid. Nationwide, private health insurance funds the largest portion of overall healthcare spending (Levit et al., 2003). In 2001, private health insurance accounted for 35% of national health expenditures (Figure 5).

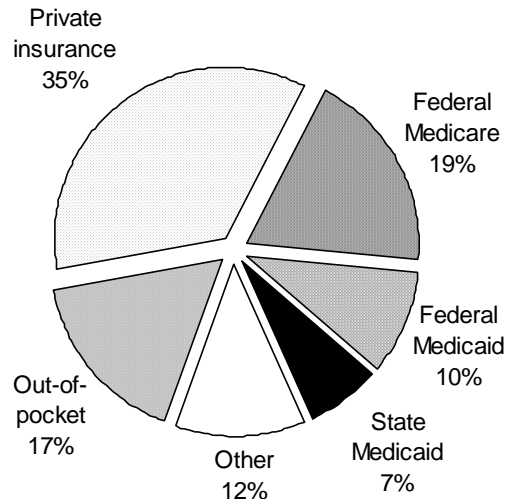


Figure 5. Source of Funding for National Health Expenditures, 2001.

In Mississippi, combined Medicare and Medicaid payments accounted for an average of 42% of personal healthcare expenditures between 1990 and 2001 (Figure 6). In 2002 Mississippi had the highest Federal Medical Assistance Percentage, a measure of fiscal need for healthcare used to calculate federally matched funds for Medicaid (Blair and Millea, 2003).

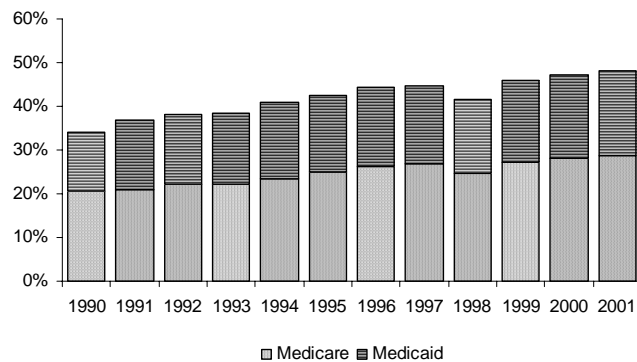


Figure 6. Medicare and Medicaid Spending in Mississippi as a Percentage of Personal Healthcare Expenditures.

As a result, state expenditures on Medicaid (\$820 million) were supplemented with \$1.98 billion from the federal government - in 2002, federal inflows supported 39,000 jobs, of which more than 20,000 were in the health sector.

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